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SUBJECT: ORCHIDS AS TAIWAN'S STRATEGIC INDUSTRY

¶1. Summary. Orchid production has recently become a strategic focal point in Taiwan's agricultural economy and addresses Taiwan's focus to incorporate high-tech research into agricultural production. Orchid exports to the U.S. currently accounts for 30% of total export production. Trade opportunities with the U.S. were enhanced in 2004 when Taiwan and U.S. agricultural officials agreed to a new shipping protocol for orchid exports entering the U.S. Market potential for Taiwan orchids is strong but remains vulnerable to a number of challenges, including trademark and property rights protection, streamlining the supply-chain, and increasing competition from China. End summary.

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TAIWAN FOCUSES ON ORCHIDS

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¶2. Taiwan is a global leader in the USD 2 billion orchid industry, producing one quarter of the world's orchids. In order to diversify its agricultural exports and increase farm revenue, Taiwan authorities have devoted money, land, and other government resources to fuel development of its orchid industry. Although the benefit of floral sales is less than the high-tech industry, Taiwan authorities are treating the orchid industry as one of the Taiwan's strategic industries. Moreover, Taiwan aspires to make itself synonymous with orchid production in the same way the Dutch have with tulip production.

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ORCHID'S SWEET START

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¶3. Taisugar, a state-owned enterprise and one of Taiwan's largest landowners, has driven development of Taiwan's orchid market since the 1980s. Committing its resources to research and development, Taisugar has been instrumental in initiating exports of Taiwan orchids around the world, producing sturdy and attractive varieties for export. Currently, as the largest exporter of orchids in Taiwan, Taisugar is responsible for over 6% of total orchid exports to the U.S. Altogether, the industry has 10 large producers and more than 300 Taiwan horticulture companies specializing in orchids. Taisugar has stepped back from being the innovator and turned into a mass producer, allowing private orchid producers to take the lead in research and development.

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SENDING ORCHIDS TO THE WORLD

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14. Total land area devoted to orchid production in Taiwan is about 460 hectares with an annual export value estimated at \$61.9 million. The main export variety is the Phalaenopsis representing 90% of both the volume and the revenue of orchid exports to the U.S. Most orchids are exported in seedling form stored in flasks. These flasks are shipped to wholesale nurseries abroad for nurturing until maturity for retail sale. The 2004 agreement between U.S. and Taiwan that allows the shipment of potted orchids in mixed media means orchids can be shipped directly for distribution with less damage and attrition. It is expected that this agreement will greatly facilitate Taiwan's orchid exports to the United States. Since the first shipment in early 2005, Taiwan has exported approximately USD 1.8 million worth of potted orchids.

15. However, the majority of Taiwan orchids are still exported to Japan. Orchids for Japanese consumers represent 35% of production, U.S. represent 30%; while the EU represents 15% of the overall export market. Orchid producers have been looking for more efficient distribution channels. In the U.S., plans are underway for Taiwan growers to set up their own wholesale and distribution networks. When U.S. business license and land use permits are approved, Taiwan growers will begin building their own nurseries using land purchased in New Jersey for east coast distribution. Taiwan is researching import compliance procedures that would allow direct access to EU countries instead of going through the Dutch flower auctions, capitalizing on a more cost-advantageous supply distribution chain.

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Why Taiwan?

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16. A number of factors underlay Taiwan's comparative advantage in orchid production. Production costs, especially labor, are low compared to other orchid producers in the world. Estimated monthly salary for greenhouse workers is \$600 a month, about 1/3 of the cost of similar labor in the U.S. Taiwan authorities are supporting research through funding in grants, production infrastructure, and research labs. As a result, orchid researchers in Taiwan have been at the forefront of orchid technology, including biotechnology. Taiwan's climate and expertise in producing orchids have resulted in a low seedling to bloom production time of 4 to 18 months, while competitor producers take up to 30 months. Taiwan has access to modern gene transplantation technology which accelerates the process of nurturing new varieties, and could allow for mass production of once rare and expensive orchids that consumers rarely had access to.

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WITH A HELPING HAND FROM COUNCIL OF AGRICULTURE

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17. With government assistance through grants from the National Science Foundation and low-interest loans through the Council of Agriculture (COA), the private sector is replacing Taisugar as the main researcher and developer of new orchid technology. A representative from COA claimed that the COA will fully assist orchid farmers to overcome any financial difficulties in their funding needs for greenhouse infrastructure and research. Orchid farmers have access to government-backed 10-year loans at 2% interest to build greenhouses. While at the same time, an estimated total of \$150 million will be spent on an orchid biotechnology zone.

18. In 2005, after 14 years of construction and coordination with local farmers, Taisugar (the land-owners), county authorities (organizers), and the COA, Taiwan completed initial development of its first orchid

biotechnology zone called the Taiwan Orchid Plantation (TOP) in southern Taiwan's Tainan County. The zone will eventually cover 200 hectares of land devoted to creating a seamless supply chain for orchid export that includes land for farming, and research facilities. A nearby exhibition hall provides an export, marketing, and distribution center. Interested production parties can inexpensively lease a plot of land, rent a ready-built greenhouse or take out a government loan to build their own greenhouses while international buyers can easily access Taiwan orchids using TOP's production-to-market facilities.

¶9. This year, during TOP's second stage of development, about 35 hectares have been leased and developed for orchid production with participation from 25 private sector farms. The exhibition hall of TOP holds an annual orchid show every spring featuring orchid varieties produced in Taiwan. According to exhibition organizers, there was moderate participation from international buyers in the annual orchid show this year, but local turnout for the first few days was more than four thousand people, making the exhibition a promising tourism destination.

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NEXT CHALLENGES: SUSTAINING AND PROTECTING

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¶10. Although production statistics show Taiwan is a key global producer of orchids, the Taiwan orchid industry is under-patronized by world-wide professional and hobby growers' societies, revealing the challenges in positioning the product globally. Some may believe that because Taiwan has been able to produce orchids for the masses, Taiwan is causing the flower to lose its cachet. With easy access to the export market through TOP, established growers in Taiwan are concerned about the flood of new farmers entering the market, further compromising the quality and reputation for Taiwan orchid production.

¶11. Further complicating the future direction Taiwan's orchid industry are patent issues. Support mechanisms are slowly coming to fruition for orchid farmers to patent new cultivating methods. But farmers have not been quick to

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patent their technology and are vulnerable to losing their comparative advantage in orchid production. New species piracy is rampant due to the lag between floral species development and legal protection in Taiwan. The amended Plant Variety and Plant Seed Act, implemented in 2005, has reinforced control over the development, introduction, use, and specification of species. This act connects Taiwan growers with international specifications and helps local flower growers apply for intellectual property (IP) rights for new plant species.

¶12. More troubling for Taiwan is competition from China. The biggest threat most Taiwan orchid farmers see from China is cheaper production, massive orchid output potential, and theft of agriculture technology. According to the COA, China is currently offering perks such as rent discounts and electricity allowances to attract local Taiwan flower growers to move orchid production and Taiwan-developed technology to the mainland.

¶13. Considering the challenges, the Taiwan orchid industry still has room for expansion in EU and U.S. markets. Due to its comparative advantage in cost, research, and government support, Taiwan has all the desirable tools to remain the largest producer of orchids in the world. END COMMENT.

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